



Activity Review

North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road, Suite 104, PO Box 12827, Raleigh, NC 27605 (919) 733-4222 Issue No. 11-2002

Results of Rule-Making Hearing

On October 18, 2002, the NC State Board of CPA Examiners held a public rule-making hearing to consider written and oral comments relevant to the proposed adoption, amendment, and repeal of specific rules as published in the *Activity Review*, Issue 9-2002 and on the Board's web site, www.state.nc.us/cpabd.

The proposed adoptions, amendments, and repeals were the result of the Board's intention to bring its rules into compliance with the Uniform Accountancy Act (UAA)—a joint document of the National Association of State Boards of Accountancy (NASBA) and the American Institute of CPAs (AICPA).

In addition, the proposed changes reflect the Board's desire to enhance the protection of the public; to facilitate uniform regulation of the profession; and to prepare for the administration of the computer-based Uniform CPA Examination.

Although written testimony on the proposed rules was received from 19 individuals or groups, including the North Carolina Association of CPAs (NCACPA), no one was present at the public rule-making hearing to offer oral testimony on the proposed rules.

At the conclusion of the public hearing, the Board entered the Public Session of its regular meeting to discuss the proposed rules.

Each of the proposed rules, except for 21 NCAC 8G .0409(c) and 21 NCAC

8M .0106(a)(4), were adopted, amended, or repealed as published in the *North Carolina Register*, Volume 17, Issue 6, which is available from the Board's web site.

21 NCAC 8G .0409(c) was amended to read as follows: *CPE credit for self-study courses shall be limited so that a CPA completes at least eight (8) hours of non-self-study each year.*

21 NCAC 8M .0106(a)(4) was amended to read as follows: *A package to include Peer Review Report, Letter of Comments, Letter of Response and Final Acceptance Letter for all adverse and second consecutive modified reports issued by a peer review program within sixty (60) days of the date of the Final Letter of Acceptance.*

The rules, as passed by the Board on October 18, 2002, have been filed with the Rules Review Commission (RRC) for consideration.

Until the rules are approved by the RRC, the RRC staff may suggest changes to the rules that will bring the rules into compliance with the Board's statutory authority.

After the RRC approves the rules, the rules will be sent for legislative review by the General Assembly in its 2003 session, which will convene in January.

If no bill is introduced against the rules, the rules will be forwarded to the

Rules
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Annual CPE Reminder

The December 31, 2002, deadline for completing the 40-hour continuing professional education (CPE) requirement for 2002-2003 license renewal is fast approaching and some licensees may still be trying to fulfill that requirement.

Pursuant to 21 NCAC 8G .0406, a licensee who fails to complete the CPE requirement in a timely manner is subject to disciplinary action and may be ineligible to renew his or her certificate.

CPE
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CPA Firm Renewal/SQR Compliance Information Page 4

www.state.nc.us/cpabd

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Disciplinary Actions

Terry C. Spence #12335
Sanford, NC 09/23/02

THIS CAUSE, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41 and 150B-22, the Board and Respondent stipulate the following Findings:

1. Prior to obtaining inactive status in August 2000, Respondent was the holder of North Carolina certificate number 12335 as a Certified Public Accountant. Pursuant to 21 NCAC 8J .0105(e) an individual on inactive status may return to active status upon application as provided in 21 NCAC 8J .0106.
2. At some time on or before 1993, Respondent was employed as a comptroller for a private company ("Company") based upon the fact that he was licensed as a Certified Public Accountant. The Company relied upon Respondent's licensure by vesting in Respondent substantial trust and concomitant authority regarding the employer's funds.
3. During the period 1993 through 1998, Respondent, in conspiracy with others, diverted funds belonging to the Company to himself and to others.
4. Respondent, in his position as comptroller, altered and manipulated the Company's financial books and records to conceal the diversion of funds.
5. In July of 1999, Respondent repaid some money, in cash, to the Company and executed a promissory note in the "principal amount of \$650,000.00." Respondent subsequently failed to pay the promissory note when the Company demanded payment.
6. Subsequently, the Company sued Respondent for monies still owed. In settlement of the pending litigation, Respondent signed, in April of 2000, a Compromise Settlement Agreement and Mutual Release (Agreement) in which Respondent admitted and agreed that payment of the settlement with the Company represented payment "on a debt arising from fraud or

defalcation while acting in a fiduciary capacity, embezzlement, or larceny."

7. Respondent did not inform the Board of the litigation nor of the Agreement.
8. On August 1, 2000, Respondent submitted to the North Carolina State Board of CPA Examiners an application requesting that his CPA certificate be placed on inactive status. Since the Board was unaware of the embezzlement, the litigation, and the Agreement, the Board granted Respondent's request for inactive status.
9. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

BASED UPON THE FOREGOING, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Respondent's actions as set out above constitute violations of NCGS 93-12(9)d, 93-12(9)e and 21 NCAC 8N .0202, 8N .0203, 8N .0208(b), 8N .0302(a), and 8N .0303(a).

BASED ON THE FOREGOING and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

1. Respondent's CPA certificate status is hereby changed from inactive to permanently revoked.

George K. Moore #11677
Charlotte, NC 09/23/02

THIS CAUSE, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41 and 150B-22, the Board and Respondent stipulate the following Findings:

1. Respondent is the holder of a certificate as a Certified Public Accountant in North Carolina.
2. In an Order Instituting Public Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, and Rule 102(e) of the Commission's Rules of Practice, Making Findings, Issuing Cease-and-Desist Order, and Imposing Remedial Sanctions (Commission Order), the Securities and Exchange Commission (Commission) found that:
 - a. Respondent was "at all relevant times a board member, audit committee member, and paid consultant to Swisher International, Inc." (Swisher), a publicly traded company, and is a certified public accountant, licensed in the State of North Carolina.
 - b. The Commission's administrative action alleged that:
 - (1) Respondent helped the accounting staff of Swisher make an inaccurate journal entry related to the sale of a franchise and failed to see that Swisher disclosed the related party nature of the sale,
 - (2) Respondent failed to disclose another material related-party transaction, and
 - (3) Respondent failed to write-down notes receivable to account for interest-free periods.
 - c. On August 23, 2001, Respondent submitted an Offer of Settlement to the Commission and, without admitting or denying the Commission's findings except the Commission's personal and subject matter jurisdiction, consented to the entry of the Order by the Commission finding that: (a) Respondent willfully violated or aided and abetted others who violated Sections 17(a)(2) and (3) of the Securities Act; Sections 13(a), 13(b)(2)(A) and (B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13b2-1 thereunder for purposes of Rule 102(e)(1)(iii) of the Commission's Rules of Practice; and (b) Respondent also caused violations of Sections 17(a)(2) and (3) of the Securities Act; Sections 13(a), 13(b)(2)(A)

and (B) of the Exchange Act and Rules 12b-20 13a-1 and 13a-13 for purposes of Section 8A of the Securities Act and Section 21 C of the Exchange Act.

3. Based on the Commission's acceptance of Respondent's Offer of Settlement, the Commission ordered on September 10, 2001, that Respondent be "denied privilege of appearing or practicing before the Commission as an accountant."

4. The Commission further specified in its Order that Respondent could, after two (2) years from the date of the Order, request "reinstatement by submitting an application...to resume appearing or practicing before the Commission."

5. Respondent submits that he did not intentionally violate the North Carolina Accountancy laws and that he consented to the SEC discipline in order to resolve its investigation.

6. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

BASED UPON THE FOREGOING, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent's discipline as imposed in the Commission's September 10, 2001, Order constitutes violations of NCGS 93-12(9) and 21 NCAC 8N .0204(a) and (b).

BASED ON THE FOREGOING and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

1. Respondent's certificate is suspended for two (2) years; however, said suspension is stayed.
2. Respondent shall voluntarily sur-

render his North Carolina CPA certificate to the Board effective upon approval by the Board of this Consent Order and Respondent agrees that he will not apply for reinstatement or reissuance of his CPA certificate.

3. Respondent shall pay a civil penalty of \$250.00.

4. Respondent shall pay to the Board reimbursement of costs of \$1,000.00.

Name Not Published

THIS CAUSE coming before the Board on September 23, 2002, at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present, the Board finds, based on the clear and convincing evidence presented, that:

FINDINGS OF FACT

1. Respondent is the holder of a certificate as a Certified Public Accountant in North Carolina and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. As a part of information included in Respondent's firm's 2000 and 2001 firm renewals as provided by the Board, Respondent was advised that Respondent's firm's SQR was due to be completed on or before December 22, 2001.

3. Respondent's firm's 2002 firm renewal was received by the Board office on January 2, 2002. Said form again included information advising Respondent that the firm's SQR was due to be completed on or before December 22, 2001.

4. Respondent's firm's 2002 firm renewal did not include documentation to prove Respondent's compliance with SQR requirements, as mandated by NCGS 93-12(8c) and 21 NCAC 8M.

5. In February of 2002, Board staff notified Respondent by certified/return receipt mail sent to Respondent's

firm's last known address that Respondent had failed to include with the firm's renewal documentation of the completion of the firm's SQR by the December 22, 2001, deadline. In this letter, Board staff requested that Respondent provide said documentation or an explanation as to why the SQR had not been completed.

6. In March of 2002, Respondent advised Board staff that the firm's SQR should be completed sometime during the month of March.

7. On May 31, 2002, the Board office received, via facsimile, the SQR statement of completion form indicating that the SQR for Respondent's firm had been completed with the exit conference on May 31, 2002.

8. Respondent failed to timely obtain a State Quality Review (SQR) in accordance with provisions as required by NCGS 93-12 (8c) and 21 NCAC 8M .0102.

9. Respondent subsequently completed the SQR and has provided documentation to the Board that the SQR was completed in excess of 120 days from the required completion date.

CONCLUSIONS OF LAW

1. Respondent's failure to timely obtain a SQR prior to the prescribed completion date is a violation of NCGS 93-12 (8c) and 21 NCAC 8M .0102.

BASED ON THE FOREGOING, the Board orders that:

1. Respondent's certificate is suspended for 30 days; however, said suspension is stayed based on Respondent's completion of the SQR.

2. Respondent shall disclose the suspension of Respondent's license whenever asked if Respondent has ever had a license suspended or revoked.

3. Respondent shall pay a one hundred dollar (\$100.00) civil penalty.

4. Respondent's certificate shall be placed on conditional status for one year from the date this Order is approved.

Rules

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Office of Administrative Hearings to be entered into the North Carolina Administrative Code (NCAC).

If no objections to the rules are raised by the General Assembly, the following rules will become effective April 1, 2003:

21 NCAC 8A .0201
21 NCAC 8F .0111
21 NCAC 8F .0504
21 NCAC 8H .0106
21 NCAC 8N .0205
21 NCAC 8N .0208
21 NCAC 8N .0211
21 NCAC 8N .0302
21 NCAC 8N .0305
21 NCAC 8N .0402

If no objections to the rules are raised by the General Assembly, the following rules will become effective January 1, 2004:

21 NCAC 8A .0301
21 NCAC 8A .0315
21 NCAC 8F .0103
21 NCAC 8F .0105
21 NCAC 8F .0110
21 NCAC 8F .0113
21 NCAC 8G .0401
21 NCAC 8G .0403 - .0404
21 NCAC 8G .0406
21 NCAC 8G .0409
21 NCAC 8H .0101
21 NCAC 8J .0108
21 NCAC 8J .0110 - .0111
21 NCAC 8M .0101 - .0104
21 NCAC 8M .0105 - .0107
21 NCAC 8M .0201
21 NCAC 8M .0202
21 NCAC 8M .0204
21 NCAC 8M .0206 - .0207
21 NCAC 8M .0301 - .0306
21 NCAC 8M .0401 - .0403
21 NCAC 8N .0202 - .0203

If you have questions regarding the public rule-making hearing or the rules review process, please contact the Board's Executive Director, Robert N. Brooks, by telephone at (919) 733-4222 or via e-mail at rnbrooks@bellsouth.net.

Contact the Board

Main Telephone Number
(919) 733-4222

Fax Number
(919) 733-4209

Toll-Free Application Line
1-800-211-7930

Address
1101 Oberlin Road, Suite 104
PO Box 12827
Raleigh, NC 27605

Web Site
<http://www.state.nc.us/cpabd>

Administrative Services
(919) 733-4223

Communications
(919) 733-4208

Examinations
(919) 733-4224

Licensing
(919) 733-1422 (applications)

Licensing
(919) 733-1423 (firms/SQR/CPE)

Professional Standards
(919) 733-1426

CPA Firm Renewal/SQR Compliance Due

In late October, CPA firm renewal/State Quality Review (SQR) compliance forms were mailed to all registered CPA firms, individual practitioners, partnerships, professional corporations, professional limited liability companies, and registered limited liability partnerships.

By reading the instructions included with the form; reviewing 21 NCAC 8J, *Renewals and Registrations*, and 21 NCAC 8M, *State Quality Review Program*; and following the checklist below, you can ensure that your CPA firm's renewal/SQR compliance information is received by the Board prior to the December 31 deadline.

CPA Firm Renewal/SQR Compliance Checklist

- If the information on the form is incorrect or incomplete, make the necessary corrections or additions.

- The form must be signed to be complete. **Do not** detach and return only the signature portion of the form; you must return the entire form, even if no changes were made.

- If the CPA firm is no longer in operation, check the appropriate box, sign the form, and return it and if appropriate, filed articles of dissolution or withdrawal, to the Board. Choosing not to return the form does not constitute notifying the Board that the CPA firm is no longer in operation.

- If fees are due, the check must be made payable to the NC State Board of CPA Examiners. Checks made pay-

able to other organizations cannot be accepted. Fees may also be paid using MasterCard or VISA.

- If there have been any changes in employees, partners, shareholders, members, etc., make the necessary corrections to the supplemental form. If there have not been any changes, initial the supplemental form and attach it to the main page of the renewal form.

- If the CPA firm's peer review has been completed but is not indicated on the form, write in the date of completion and provide the appropriate documentation. If the peer review has been completed and the deadline is during 2002, the completion must be reported no later than December 31, 2002.

- If the CPA firm is not a member of the NCACPA or the AICPA; is not exempt from quality review; and the review is due in 2003, an additional \$75.00 must be submitted with the form. The Board will then provide the CPA firm with a list of reviewers.

If a CPA firm fails to comply with any part of 21 NCAC 8J .0108, 8J .0110, or 8M .0102, the Board may take disciplinary action against the CPA firm's members. Such action may include a conditional license, civil penalties, and suspension of each CPA firm member's CPA certificate.

If you have questions about CPA firm renewal or SQR compliance, please contact Martha Traina by telephone at (919) 733-1423 or via e-mail at mtraina@bellsouth.net.

Disciplinary Actions

Cody L. McKinney #19585
Spruce Pine, NC 09/23/02

THIS CAUSE coming before the Board on September 23, 2002, at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present, the Board finds, based on the clear and convincing evidence presented, that:

FINDINGS OF FACT

1. Cody L. McKinney is the holder of a certificate as a Certified Public Accountant in North Carolina and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Cody L. McKinney failed to ensure that his firm timely obtained a State Quality Review (SQR) in accordance with provisions as required by NCGS 93-12(8c) and 21 NCAC 8M.0102.
3. Cody L. McKinney subsequently provided documentation to the Board that his firm's SQR was completed in excess of 60 days but not more than 120 days from the required completion date.

CONCLUSIONS OF LAW

1. Cody L. McKinney's failure to timely obtain an SQR prior to the prescribed completion date is a violation of NCGS 93-12(8c) and 21 NCAC 8M .0102.

BASED ON THE FOREGOING, the Board orders that:

1. Cody L. McKinney shall pay a one hundred dollar (\$100.00) civil penalty.
2. Cody L. McKinney's certificate shall be placed on conditional status for one year from the date this Order is approved.

Amy G. Brown #21055
Newland, NC 09/23/02

THIS CAUSE coming before the Board on September 23, 2002, at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present, the Board finds, based on the clear and convincing evidence presented, that:

FINDINGS OF FACT

1. Amy G. Brown is the holder of a certificate as a Certified Public Accountant in North Carolina and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Amy G. Brown failed to ensure that her firm timely obtained a State Quality Review (SQR) in accordance with provisions as required by NCGS 93-12(8c) and 21 NCAC 8M.0102.
3. Amy G. Brown subsequently provided documentation to the Board that her firm's SQR was completed in excess of 60 days but not more than 120 days from the required completion date.

CONCLUSIONS OF LAW

1. Amy G. Brown's failure to timely obtain a SQR prior to the prescribed completion date is a violation of NCGS 93-12(8c) and 21 NCAC 8M .0102.

BASED ON THE FOREGOING, the Board orders that:

1. Amy G. Brown shall pay a one hundred dollar (\$100.00) civil penalty.
2. Amy G. Brown's certificate shall be placed on conditional status for one year from the date this Order is approved.

Board Meeting

Tuesday, December 17

CPE

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Licensees taking self-study courses to fulfill the Board's CPE requirement should note that a self-study course is not considered complete until the CPE sponsor issues a Certificate of Completion.

The date the Board will accept for CPE credit is the Certificate of Completion date, not the date the course was completed or the date the completed course was mailed to or received by the sponsor.

Individuals who complete self-study courses late in the year sometimes cannot claim CPE credit for that calendar year because the CPE sponsor issues the Certificate of Completion in the next calendar year.

It is strongly suggested that licensees who plan to use self-study courses to fulfill the CPE requirement complete the courses and mail them to the sponsor as soon as possible. It is also suggested that the licensee advise the sponsor to date the Certificate of Completion for 2002.

Computer-based interactive self-study courses that offer hour-for-hour credit will be accepted to fulfill the CPE requirement. However, all other forms of self-study are counted as one hour of credit for each two hours of study.

CPAs cannot claim reading accounting journals, periodicals, reference guides, or related materials and taking a test designed to assess reading comprehension as credit for CPE.

The most recent version of the Board's *CPE Sponsor Register* is available from the Board's web site, www.state.nc.us/cpabd.

If you have questions about CPE, please contact Martha Traina by telephone at (919) 733-1423 or via e-mail at mtraina@bellsouth.net.

Non-binding Interpretive Statement

At its June 24, 2002, meeting, the North Carolina State Board of CPA Examiners issued a Declaratory Ruling regarding third-party administration of defined contribution retirement plans. (The Declaratory Ruling was published in the July issue of the *Activity Review* and is also available on the Board's web site www.state.nc.us/cpabd).

The following non-binding interpretive statement is issued by the Board to clarify whether the preparation of IRS Form 5500 impairs the independence of a CPA.

ISSUE

This non-binding interpretive statement is issued by the North Carolina State Board of CPA Examiners, pursuant to North Carolina General Statute 150B-2(8a)(c), to address the issue of whether a licensee who performs the audit of a retirement plan or the audit of a sponsor of a retirement plan is independent with respect to the audit if the licensee prepares the IRS Form 5500 and only the Form 5500 for the retirement plans.

INTERPRETATION

The preparation of the IRS Form 5500 and only the Form 5500 for either plan would not impair the independence of the licensee in preparing the audit for either plan. Preparing the IRS Form 5500 is analogous to performing a tax return for a client; therefore, independence would not be impaired.

Reinstatements

10/18/02

Rhonda Bilbee Cianchetti
#18211
Garrett Spencer Reese
#24092
Spencer Robinson, Jr.
#10342
Misty Lynette Roddey
#25585

Certificates Issued

The following certificate applications were approved by the Board at its October 18, 2002, meeting:

Jennifer Brum Agur
Debbie Arant-O'Connor
Laurel Whitney Atwater
Forrest Reid Avett
David Allen Banks
Vadim Igorevich Bogomolov
Donna Achord Boulmay
Nettie Elizabeth Bresee
Brantley Scott Bridgers
Courtney Anne Brooks
Kathryn R. Brooks
Walter Callum Brown
Susan Wyant Barrett
Christopher Stanley Byrd
Tina Michelle Carpenter
Lesley Shannon Clark
Richard Allen Clemmons
Richard Jason Dirkson
Christopher Lanier Easter
Esther D. Flashner
G. Todd Fornes
David D. Fraser
Mark Barry Freedman
Meredith Smith Friga
George M. Gabler
Elizabeth Watson George
David A. Giles
Robert John Glowacki
John Felix Gonella, III
Terrence Edwin Haakenson
Ronald Lee Hagenbaugh
James Lynwood Hardison
Jason Lamar Harris
Ivey Meghan Hensley
Clazina Dubbeld Hersman
George K. Hoffman
Lindsay Christine Hoppe
Terry L. Horne
Christopher J. Housman
Cindy W. Jenkins
Tamara Collins Kemp
Jinsun Janet Kim
Alisa Lynette Kirk
Kelly Hopkins Kluttz
Elizabeth Scott Kornegay
Nicole Kristin Kroner
David Mark Langford

Jeffrey Stephen Ledford
April Lea Lineback
Charles D. Lockwood
Thomas Wright Magraw
Angela Marie Matousek
Cynthia Leigh Mercer
Carrie Ann Mittelsteadt
Vonda K. Mociun
Benjamin Joseph Monette
Heather Christine Mueller
William Joel Neeriemer
Wendy Gay Nowlin
Patrick Joseph O'Hagan
Nicole Samson O'Leary
Lynelle Faith Omwake
Dennis Frank Palumbo
Richard Waylon Parham
Julie Bhavin Parikh
Sharon L. Parzanese
Sonalben Natwarlal Patel
Caron E. Peters
Stephen Kenneth Porter
Cynthia Crystal Rankine
Tatyana L. Rector
Todd Steven Restel
Joseph Andrew Riley
Christine Anne Rossi
Noah McLamb Sanders
William Michael Schertzinger
Aylin F. Schilling
Amy Martin Setliff
William Thomas Shell
Edward Skiber, Jr.
Theron Howard Smith, Jr.
Ying Song
Mary Loueen Talley
Frances Yoshie Teach
Natalie Cecilia Thompson
Tabitha Nicole Townsend
Kevin Isaac Tuft
Kevin B. Vincent
Jodie B. Vinson
April D. Walker
Kimberly M. Watson
Richard Douglas Weddington
David Eugene Williams
Junling Yang

FASB Seeks Comments on Proposal for Principles-Based Standards

The Financial Accounting Standards Board (FASB) has published a proposal for public comment on a principles-based approach to accounting standard-setting that discusses how that approach might improve the quality and transparency of financial reporting and affect development of future standards.

According to Linda A. MacDonald, FASB Project Manager, some constituents believe that as business transactions have become increasingly sophisticated and complex, so, too, have the accounting standards.

Constituents have also expressed concern that detailed accounting standards are more difficult to use and costly to implement and others believe that detailed rules allow for structuring transactions that meet the literal

requirements of the rules, but ignore the intent and spirit of the standards.

"The FASB is committed to improving US financial accounting standards. Many believe that moving to broader, more principles-based accounting standards such as those used in other parts of the world would facilitate better reporting in the United States," said Robert H. Herz, FASB Chairman.

"Others, however, are concerned that a principles-based approach could reduce the comparability of financial information and leave too much room for judgment by companies and auditors."

In a press release, the FASB stated that because adoption of a principles-based approach would require changes

in the processes and behaviors of all participants in the US financial accounting and reporting process, the FASB needs more information before it determines the extent to which it should undertake initiatives to adopt that approach.

The FASB also said that the recently enacted Sarbanes-Oxley Act requires the SEC to investigate the feasibility of implementing a more principles-based approach to accounting in this country and, therefore, the FASB staff worked closely with the SEC staff in preparing the proposal.

The proposal is available on-line at www.fasb.org/proposals/principles-based_approach.pdf.

Comments on the proposal are due to the FASB by January 3, 2003.

AICPA Issues New Audit Standard for Detecting Fraud

On October 15, 2002, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) announced that it had approved a new standard, *Statement on Auditing Standards (SAS) No. 99: Consideration of Fraud in a Financial Statement Audit*.

SAS No. 99, which supersedes the ASB's earlier fraud standard, SAS No. 82, gives US auditors expanded guidance for detecting material fraud.

The standard is the cornerstone of a multifaceted effort by the AICPA to help restore investor confidence in US capital markets and to reestablish audited financial statements as a clear picture window into Corporate America.

The key provisions of SAS No. 99, as stated by the AICPA, include:

- **Increased Emphasis on Professional Skepticism.** Putting aside any prior beliefs as to management's honesty, members of the audit team must exchange ideas or brainstorm how fraud could occur.

These discussions are intended to identify fraud risks and should be con-

ducted while keeping in mind the characteristics that are present when frauds occur: incentives, opportunities, and ability to rationalize.

Throughout the audit, the engagement team should think about and explore the question, "If someone wanted to perpetrate a fraud, how would it be done?" From these discussions, the engagement team should be in a better position to design audit tests responsive to the risks of fraud.

- **Discussions with Management.**

The engagement team is expected to inquire of management and others in the organization as to the risk of fraud and whether they are aware of any frauds.

The auditors should make a point of talking to employees in and outside management. Giving employees and others the opportunity to "blow the whistle" may encourage someone to step forward and may help deter others from committing fraud if they are concerned that a co-worker will turn them in.

- **Unpredictable Audit Tests.**

During an audit, the engagement team

should test areas, locations and accounts that otherwise might not be tested. The team should design tests that would be unpredictable and unexpected by the client.

- **Responding to Management Override of Controls.** Because management is often in a position to override controls in order to commit financial-statement fraud, the standard includes procedures to test for management override of controls on every audit.

SAS No. 99 is effective for audits of financial statements for periods beginning on or after December 15, 2002.

The AICPA, however, is urging firms, particularly those that audit public companies, to begin earlier implementation.

Comments

If you have comments or questions regarding the *Activity Review*, please contact Lisa R. Hearne, Communications Manager, by telephone at (919) 733-4208 or via e-mail at lhearn@bellsouth.net.



State Board of CPA Examiners

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